



Audit Committee

MINUTES

Held on the 16th October 2018 at 4:30 pm in the Shire of Dundas
Council Chambers

UNCONFIRMED

Shire of Dundas

Audit Committee

Delegated Duties and Responsibilities

The following duties and responsibilities are delegated to the Audit Committee by the Council at the Ordinary Meeting of the Council held on the 21st October 2014:-

1. Provide guidance and assistance to the Council in carrying out the functions of the Shire in relation to audits which includes risk management, internal controls and legislative compliance.
2. Develop and recommend to the Council an appropriate process for the selection and appointment of a person as the Shires auditor.
3. Develop and recommend to the Council a written format for the proposal to tender for the Shires audit. The proposal is to include –
 - the objectives of the audit;
 - the scope of the audit;
 - a plan of the audit;
 - details of the remuneration and expenses to be paid; and
 - the method of communication to be used between the auditor and the Shire.
- 4 Recommend to the Council the person or persons to be appointed as auditor.
- 5 Liaise with the CEO to ensure that the Shire does everything in its power to:
 - assist the auditor to conduct the audit and carry out his or her other duties under the Local Government Act 1995; and
 - ensure that audits are conducted successfully and expeditiously.
- 6 Examine the reports of the auditor after receiving a report from the CEO on the matters and –
 - determine if any matters raised require action to be taken by the Shire; and
 - ensure that appropriate action is taken in respect of those matters.
- 7 Review the report prepared by the CEO on any actions taken in respect of any matters raised in the report of the auditor and present the report to the Council for adoption prior to the end of the next financial year or 6 months after the last report prepared by the auditor is received, whichever is the latest in time.
- 8 Review the relevant audit process annually to ensure that it is effective and meets the objectives of the Shires “Internal Audit and Risk Management Policy”.
- 9 Oversee the Shires Risk Management Plan and
 - support the implementation of the risk management and culture development program throughout the Shire;
 - make recommendation of the risk tolerance level for the Council to consider and adopt as appropriate;
 - bring to the attention of the Council the high to extreme identified risks and their recommended treatment;
 - establish the risk management plan which is aligned with the strategic planning process; and
 - actively promote risk management throughout the Shire.
- 10 To meet with the auditor at least once in every year in accordance with Section 7.12A(2) of the Local Government Act 1995.

Delegation reviewed and adopted without amendment at Ordinary Meeting of Council held 21ST October 2014

**Minutes of the Audit Committee Meeting held on
the 16th October 2018 in the Council Chamber,
Shire of Dundas Administration Office, meeting to
commence at 4.30pm.**

Table of Contents

Delegated Duties and Responsibilities	2
1 Declaration of Opening.....	4
2 Declarations of Financial, Proximity and Impartiality Interests	4
3 Records of Attendance / Officers / Apologies.....	4
4 Confirmation of Minutes of Previous Meeting.....	4
5 Reports of Officers	4
5.1 Acceptance of the Auditor's Report for the year ended 30 th June 2018.....	4
6 Next Meeting.....	7
7 Closure of Meeting.....	7

1 Declaration of Opening

The Chairperson welcomed all those in attendance and declared the meeting open at 4:31pm.

2 Declarations of Financial, Proximity and Impartiality Interests

Nil

3 Records of Attendance / Officers / Apologies***Present:***

Cr L Bonza	Shire President
Cr R Patupis	Deputy Shire President
Cr P Hogan	
Cr B Bayley	at 5:06pm
Cr V Wyatt	at 4:35pm
Cr S Warner	

P Fitchat	Chief Executive Officer
G Kohobange	Deputy Chief Executive Officer
S Ellison	Senior Administration Officer
P Crawford	Manager of Works & Services

Marius van der Merwe Director, Butler Settineri (Audit) Pty Ltd

4 Confirmation of Minutes of Previous Meeting**Recommendation**

That the minutes of the Audit Committee meeting held on 20th March 2018 be confirmed as a true and accurate record.

Moved	Cr Hogan
Seconded	Cr Patupis

Resolution

That the minutes of the Audit Committee meeting held on 20th March 2018 be confirmed as a true and accurate record.

Carried by: Simple Majority For: 4 Against: 0

5 Reports of Officers

Agenda Reference & Subject	
5.1 Acceptance of the Auditor's Report for the year ended 30th June 2018.	
Location / Address	Shire of Dundas
File Reference	FM.AD
Author	Gihan Kohobange
Date of Report	12th October 2018
Disclosure of Interest	Nil

Summary

For the Audit Committee to review the Audit Report for the year ended 30th June 2018 together with the CEO's comments on the Audit Report and recommending to Council the actions identified as part of this review.

Background

On the inside cover sheet to this agenda is the list of duties and responsibilities that Council has delegated to the Audit Committee. In particular items 7 and 8 are relevant to this meeting. Delegations need to be reviewed and amended once the Office of the Auditor General has officially taken over the financial audit responsibilities of the Shire.

Statutory Environment

Item 7 of the Delegated Duties and Responsibilities as well as Section 7.12A(2) of the Local Government Act 1995.

In accordance with delegation number 7 the Audit Committee is to review the Auditor's Report and the CEO's Report and present the report to Council prior to the end of the next financial year.

Policy Implications

Nil

Financial Implications

Nil

Strategic Implications

Nil

Consultation

Marius van der Merwe (Audit Director), CEO, Senior Administration Officer

Comment

The Shires auditor, Marius van der Merwe has presented his report on the 2017/18 financial year. The draft audit report is included in papers relating.

The CEO's comments on the Audit Report are as follows:

The Independent Audit Report again identifies that the Shire's financial affairs are in good order and do not indicate any significant adverse trends in the financial position or the financial management practices of the Shire apart from operating surplus and asset sustainability ratios are not meeting the minimum benchmarks.

Operating Surplus Ratio (Benchmark >0.01)

This is an indicator of the extent to which revenues raised cover operational expenses only or are available for capital funding purposes. This is measured as:

$$\text{Operating surplus ratio} = \frac{\text{operating revenue minus operating expenses}}{\text{own source operating revenue}}$$

Average operating revenue of the Shire is \$4.5 million. Including depreciation expenses of \$2.4 million on non-current assets, total average operating expenses of the Shire is \$5.5 million. Under these circumstances, it is very unlikely that the Shire will ever be able to achieve an operating surplus, thus operating surplus ratio benchmark.

Accounting guidelines indicate that a sustained period of deficits will erode the local government's ability to maintain both its operational service level and asset base. This worsening situation is mainly due to increasing depreciation due to asset revaluations. To some degree, this ratio does not accurately represent the Shire's scenario, whereby a significant proportion of infrastructure renewal (expensed via depreciation) is met by capital grant income.

However, the Shire needs to closely monitor the trend of operating surplus ratio and take every possible effort to achieve operating cost savings. Considering the significance of the new capital projects the Shire has undertaken in the recent past, a healthy operating surplus is a paramount importance for future financial sustainability of the Shire.

Excluding the impact of early receipt of Financial Assistance Grant and other one-off revenue items (e.g. accounting profit on Eucla community hall fire damage)

Ratio	Standard	2017/18	2016/17	2015/16
Operating surplus ratio	≥ 0.01	(0.40)	(0.38)	(0.32)

Asset Sustainability Ratio (Benchmark >0.90)

This is an indicator of the extent to which assets managed by a local government are being replaced as they reach the end of their useful lives. This is measured as:

$$\text{Asset sustainability ratio} = \frac{\text{capital renewal and replacement expenditure}}{\text{depreciation expenses}}$$

To achieve this benchmark, at the current level of depreciation expenses, the Shire needs to spend in excess of \$2.1 on capital renewal projects.

To some degree, this ratio also does not accurately represent the Shire's scenario. Increase in depreciation expenses associated with asset revaluations does not necessarily reflect exact capital asset renewal requirements of the Shire. Further, in the recent past very high proportion of capital expenditure was associated with new or upgrade projects (Norseman airport upgrade, parks upgrade etc.). Road capital renewal projects have been rescheduled to future years due to the Shire's involvement with the airport upgrade project.

The downward trend in the ratio amidst significant new capital projects raises the level of uncertainty about the Shire's ability to meet capital renewal requirements in medium to long term.

Asset management plan of the Shire needs to be further rationalised to achieve a better level of confidence.

Ratio	Standard	2017/18	2016/17	2015/16
Asset Sustainability Ratio	≥ 0.90	0.35	0.65	1.72

The draft management report also is included in the papers relating.

Voting Requirements

Simple majority

Marius van der Merwe spoke in relation to the audit report 4:33pm – 5:24pm

Cr Wyatt entered the Council Chambers at 4:35pm

Cr Bayley entered the Council Chambers at 5:06pm

Recommendation

That the Audit Committee recommend to Council that the Auditor's Report for 2017/18 be accepted.

Moved Cr Hogan

Seconded Cr Patupis

Resolution

That the Audit Committee recommend to Council that the Auditor's Report for 2017/18 be accepted.

Carried by: Simple Majority

For: 6

Against: 0

6 Next Meeting

The next meeting of the Audit Committee will be called as required.

7 Closure of Meeting

There being no further matters for discussion the Chairperson closed the meeting at 5:30pm.